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GENERAL ACCOUNTING OFFICE WASHINGTON DC PROCUREMENT --ETC F/G 5/1  
ALLEGATIONS OF UNETHICAL BIDDING PRACTICES ON FEDERAL CONSTRUCT--ETC(U)  
SEP 81  
GAO/PLRD-81-64

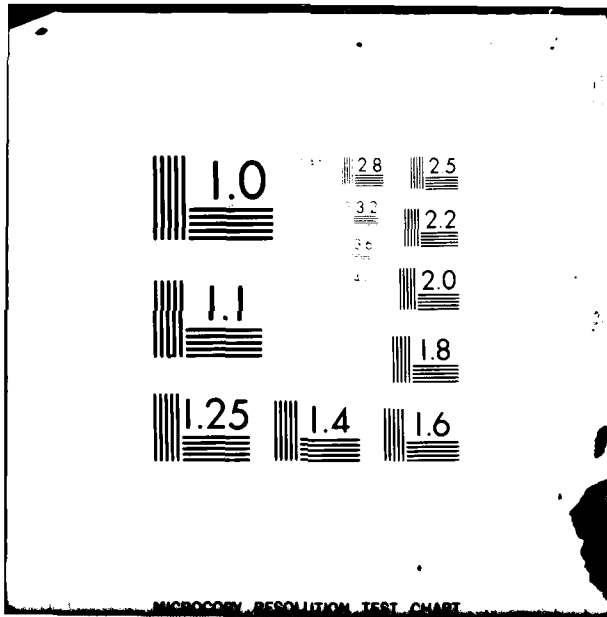
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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

PROCUREMENT, LOGISTICS,  
AND READINESS DIVISION

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**LEVEL II**

B-204451

14 GAS/PLRD-81-64

9 SEP 1981

The Honorable Leon E. Panetta  
House of Representatives

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ELECTE  
NOV 13 1981

Dear Mr. Panetta:

Subject: Allegations of Unethical Bidding Practices  
on Federal Construction Contracts.  
(PLRD-81-64)

IN A  
In your May 21, 1981, letter, you asked us to investigate  
a constituent's complaint concerning unethical bidding practices  
by construction contractors bidding on Federal projects. This  
report provides some background on the bidding controversy and  
our views on the solutions proposed by your constituent.

The unethical bidding practices referred to are commonly  
known as "bid shopping" and have been a longstanding, recurrent  
complaint by subcontractors. As described by your constituent,  
the potential prime contractor solicits proposals from prospec-  
tive subcontractors as a basis for its bid on a construction  
project. Once the prime contractor has won the award, it again  
solicits subcontractors seeking lower prices than initially  
obtained.

Your constituent's assumption that the prime contractor  
retains, as profit, the difference between the subcontract prices  
obtained on the first subcontractor solicitation and the second  
would likely be correct if a noncompetitive prime contract were  
being awarded. However, the situation described by the consti-  
tuent appears to be competitive. Opponents of a ban on bid shop-  
ping state that the prime contractor applies a reduction factor  
to its first round subcontractor offers and this reduction is  
reflected in the price to the Government, thereby allowing the  
prime contractor to offer a lower price and win an award.

We cannot determine what really happens when formally  
advertised prime contracts are involved, since we do not have  
access to contractor's records for contracts awarded in this  
manner.

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As indicated earlier, subcontractors' complaints about bid shopping have been recurring over a long period of time. To prevent bid shopping, the General Services Administration requires that a subcontractor listing be included in bids by prime contractors. However, the Government does not have a general policy against bid shopping and other agencies generally do not prohibit the practice.

Your constituent suggested that general or prime contractors be required to perform a percentage of the job with their own crews as an alternative means of preventing bid shopping. This suggestion appears much less likely to prevent bid shopping. It may curtail competition and increase prices since we understand that it is not uncommon for general construction contractors, in both Government and private projects, to limit their participation to marshalling subcontractors and administering and supervising subcontractors' work.

We plan to bring this situation to the attention of the Office of Federal Procurement Policy for its consideration in developing a Federal procurement system applicable to all Federal agencies.

Sincerely yours,

*Donald J. Horan*

Donald J. Horan  
Director

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